

Message Text

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71

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 PA-03 USIA-12 PRS-01

RSR-01 /127 W

----- 042205

R 251751 Z MAY 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1517

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 LONDON 06220

DEPARTMENT PASS TREASURY, COMMERCE, FRB.

E. O. 11652: N/ A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING MAY 25

BEGIN SUMMARY: GOLD ROSE TO A NEW RECORD OF \$112 AND
STERLING TOPPED LAST WEEK' S HIGH BY CLOSING AT \$2.5710
ON MAY 21. THE CHANCELLOR OF THE EXCHEQUER ANNOUNCED
CUTS IN PUBLIC EXPENDITURES AMOUNTING TO 600 MILLION
POUNDS OVER THE NEXT TWO YEARS. GROWTH IN THE MONEY
SUPPLY (M3) SLOWED IN THE 3- MONTH PERIOD TO MID- APRIL
TO AN ANNUAL RATE OF GROWTH OF 22 PER CENT. GROSS
DOMESTIC PRODUCT IS REPORTED TO HAVE GROWN AT AN
ANNUAL RATE OF 6 PER CENT DURING THE FIRST QUARTER
OF 1973. WHILE AVERAGE EARNINGS GREW AT AN ANNUAL
RATE OF ONLY 3 PER CENT DURING PHASE ONE (NOVEMBER-
MARCH), APRIL SAW AN INCREASE OF 2 PER CENT IN THE
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INDEX OF WEEKLY WAGE RATES. THE RETAIL PRICE INDEX SHOWS AN INCREASE IN PRICES OF 9.2 PER CENT OVER APRIL 1972. UNEMPLOYMENT CONTINUED TO FALL IN THE PERIOD TO MID- MAY AND THE NUMBER OF VACANCIES CONTINUE TO GROW. THE MAJOR CLEARING BANKS CUT THEIR BASE LENDING RATE FROM 9 PER CENT TO 8-1/2 PER CENT, AND THE MINIMUM LENDING RATE WAS REDUCED AGAIN LAST FRIDAY TO 7-3/4 PER CENT. END SUMMARY

1. GOLD, AFTER FALLING BACK AT THE END OF LAST WEEK, REACHED A NEW HIGH ON MONDAY, MAY 21, OF \$112. IT THEN STARTED MOVING DOWNWARD AND CLOSED AT \$109.75 ON MAY 24. MOST OF THE PRESSURE CAME FROM SPECULATIVE AND INVESTMENT DEMAND. STERLING ALSO STRENGTHENED AGAINST THE DOLLAR TO REACH A HIGH OF \$2.5710 ON MAY 21. IT ALSO THEN STARTED TO MOVE DOWNWARD AS THE DOLLAR STRENGTHENED, CLOSING AT \$2.5470 ON MAY 24.

2. THE CHANCELLOR OF THE EXCHEQUER ANNOUNCED IN PARLIAMENT ON MAY 21 CUTS IN PUBLIC EXPENDITURE TOTALLING 100 MILLION POUNDS IN 1973-74 AND 500 MILLION POUNDS IN 1974-75. FOR DETAILS, SEE LONDON 5972 AND LONDON A-694.

3. THE DECISION TO MAKE CUTS IN PUBLIC EXPENDITURES WAS MADE AGAINST THE PUBLICATION OF VERY POSITIVE ECONOMIC DATA THIS WEEK. THE RISE IN M1 (S. A.) WAS 270 MILLION POUNDS, OR 2-1/4 PER CENT, AND THE RISE IN M3 (S. A.) WAS 190 MILLION POUNDS, OR 3/4 PER CENT, IN THE FOUR- WEEK PERIOD TO APRIL 18. TAKING THE LATEST THREE MONTHS TOGETHER, M1 ROSE 4-1/2 PER CENT AND M3, BY 5-1/2 PER CENT. ON AN ANNUAL BASIS, M3 ROSE BY 22 PER CENT, COMPARED TO 29 PER CENT IN THE THREE- MONTH PERIOD TO MID- MARCH. THE SMALL RISE IN M3 WAS PROBABLY DUE TO FURTHER UNWINDING OF BUSINESS WHICH HELPED TO EXAGGERATE ITS GROWTH EARLIER THIS YEAR - WHEN INTEREST RATE DIFFERENTIALS MADE IT PROFITABLE FOR SOME BANK CUSTOMERS TO BORROW ON OVERDRAFT AND INVEST THE FUNDS IN STERLING TERM DEPOSITS (INCLUDING CD'S).

4. GROSS DOMESTIC PRODUCT (BASED ON OUTPUT DATA)
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INCREASED ABOUT 1-1/2 PER CENT DURING THE FIRST QUARTER OF 1973 WHEN COMPARED TO FOURTH QUARTER 1972, THIS BEING AN INCREASE OF 6 PER CENT ON AN ANNUAL BASIS. THE INDEX OF GDP AT CONSTANT PRICES IS ESTIMATED AT 132.9 (S. A.) IN THE FIRST QUARTER COMPARED TO 130.9 IN 4 Q 1972 AND 123.8 IN 1 Q 1972.

5. AVERAGE EARNINGS ONLY GREW BY 3 PER CENT DURING

PHASE ONE OF THE GOVERNMENT'S WAGE AND PRICE FREEZE,
BUT IF ONE COMPARES THE INDEX OF 143.9 FOR MARCH
(1970 100) WITH MARCH 1972, THE INCREASE IS 12.4
PER CENT. THE INDEX OF WEEKLY WAGE RATES ROSE 2 PER
CENT IN APRIL AND NOW STANDS AT 111.4 (JULY 1973100),
AN INCREASE OF 14.9 PER CENT OVER APRIL 1972. THE
LARGE INCREASE IN APRIL REFLECTS THE INCREASES
GRANTED FOLLOWING PHASE ONE.

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6. THE RETAIL PRICE INDEX ROSE BY 1.9 PER CENT IN
APRIL AND IS NOW 9.2 PER CENT ABOVE APRIL 1972.
THE RISE INCLUDED THE EFFECTS OF THE INTRODUCTION
OF VAT WHICH IS ESTIMATED AT 0.7 PER CENT. THE
RETAIL PRICE INDEX OF 176.7 (JAN. 1962 100) WENT UP
MUCH FASTER LAST MONTH THAN AT ANY TIME SINCE THE
FREEZE WAS INTRODUCED LAST NOVEMBER. IN GENERAL, IT
SEEMS THAT THE CONTROLS WERE MUCH MORE EFFECTIVE
ON THE WAGE SIDE THAN ON THE PRICE SIDE.

7. THE TREND OF UNEMPLOYMENT CONTINUED TO BE SHARPLY DOWNWARD BETWEEN MID- APRIL AND MID- MAY AND UNFILLED VACANCIES REACHED THEIR HIGHEST LEVELS SINCE AUGUST 1966. UNEMPLOYMENT DROPPED TO 598,900, OR 2.6 PER CENT OF THE LABOR FORCE (S. A.). UNEMPLOYMENT HAS NOW DROPPED BY ABOUT 28 PER CENT IN THE PAST YEAR, AND VACANCIES HAVE MORE THAN DOUBLED.

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8. THE CLEARING BANKS ANNOUNCED ON MAY 21 AND 22 THAT THEY WERE BRINGING THEIR BASE LENDING RATES DOWN FROM 9 TO 8-1/2 PER CENT. THIS IS THE SECOND REDUCTION IN THE BASE RATE THIS YEAR, FOLLOWING THE CUT FROM THE PEAK LEVEL OF 9-1/2 PER CENT EARLY IN APRIL. THE COST TO "BLUE- CHIP" INDUSTRIAL AND COMMERCIAL CUSTOMERS WILL NOW BE 9-1/2 PER CENT, AND OTHER CUSTOMERS WILL BE PAYING BETWEEN 13 AND 13-1/2 PER CENT ON OVERDRAFTS. WHILE THE DROP IN THE RATE REFLECTS THE FALL IN THE TREASURY BILL RATE, THERE HAS BEEN SOME FEELING BY THE BANK OF ENGLAND THAT RATES HAVE FALLEN TOO QUICKLY, ALTHOUGH THE LEVEL ITSELF IS IN LINE WITH GOVERNMENT POLICY.

9. THE FORWARD DISCOUNT ON STERLING GENERALLY NARROWED DURING THE WEEK EXCEPT FOR WEDNESDAY, MAY 23, WHEN IT WIDENED MARKEDLY.

	5/17	5/24	CHANGE
1 MONTH	0.45-1/2	0.32-1/2	DOWN 0.13
3 MONTHS	1.20-1/2	1.05-1/2	DOWN 0.15
6 MONTHS	2.47-1/2	2.35-1/2	DOWN 0.12

(ALL FIGURES IN CENTS)

10. LOCAL AUTHORITY DEPOSIT RATES GENERALLY ROSE DURING THE WEEK.

	5/7	5/24	CHANGE
1 MONTH	9-3/16	9-1/2	UP 5/16
3 MONTHS	9-1/2	9-3/8	DOWN 1/8
6 MONTHS	9-3/8	9-15/16	UP 9/16

11. EURO- DOLLAR RATES GENERALLY MOVED DOWNWARD DURING THE WEEK , BUT ROSE ON THURSDAY.

	5/7	5/24	CHANGE
1 MONTH	8-1/4	8-3/4	UP 1/2
3 MONTHS	8-3/8	8-3/4	UP 3/8
6 MONTHS	8-5/8	8-3/4	UP 1/8

12. GOLD CLOSED AT \$109.75 ON MAY 24, UP \$6.50 FROM LAST THURSDAY'S CLOSE.

13. THE MINIMUM LENDING RATE REMAINED AT 7-3/4 PER UNCLASSIFIED

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CENT ON MAY 25.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 25 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
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Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730554/aaaajtku.tel
Line Count: 232
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Office: ACTION EUR
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Original Previous Classification: n/a
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30 JUN 2005

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Review Withdrawn Fields: n/a
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Subject: ECONOMIC DEVELOPMENTS: WEEK ENDING MAY 25
TAGS: ECON, UK
To: BONN
EC BRUSSELS
EUR
OECD PARIS
PARIS
ROME
SECSTATE WASHDC

TOKYO

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005